Surveys

...our decisions to do something positive... can only be taken as a result of animal spirits – a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.

John Maynard Keynes

What Keynes encapsulates in his phrase ‘animal spirits’ is the essence of motivation driving human action. Although a basic tenet of neo-classical economic theory is that human beings are rational and that they evaluate options in a logical and self-interested manner, studies of behavioural economics have since emerged to demonstrate that, in fact, human beings can be very irrational for a very long time under certain circumstances. We can be perverse.

Surveys help to capture the idiosyncrasies of our behavioural traits that lead to outcomes you would not necessarily expect under ‘normal’ circumstances. They provide us with a timely snapshot of sentiment and opinion, and the perception is that this sentiment and opinion lead to real world events. They are related to the concept that the ‘animal spirits’ of humans drive financial markets.

Let us take an example: human beings often behave essentially like herd animals. This can be likened to the so-called ‘network effect’, where you moderate your actions and responses according to those of your neighbour or someone whom you respect, admire and listen to (i.e. act as they act and, to a certain extent, do as they do). This, then, has an influence on actions that lead to real outcomes. In other words, the actions of people can be linked to human instinct and so have an impact. If we believe that something is going to happen, it makes it more likely to happen. It’s the classic self-fulfilling prophecy, or ‘placebo’ effect. There is even evidence that the latter has ‘real’ effects.

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However, it is important to remember that surveys don’t measure activity directly; theirs is an indirect role. They may, of course, have a link to an activity, but they are not as representative as the activity itself. That means they are not as powerful in measuring actions and outcomes as actual activity indices. Instead, what they are most useful for is alerting us to how activities are likely to change.

A study carried out by the Bank of England demonstrated this. It stated that, although surveys are very important, they are actually not important in or of themselves. Surveys don’t move markets – it is what they may say about a forthcoming economic indicator that does that. They can tell us about sentiment surrounding forthcoming indicators, but, in themselves, they don’t embody the impact. Ultimately, therefore, it is the indicators they are trying to predict that have the real effect.

Having said that, surveys still have a valuable role in understanding and interpreting economic data. By capturing perceptions, they have an intrinsic value and they achieve this across a variety of agents that operate in an economy: consumers, households and businesses. They can also be complementary, giving a sense of the direction of travel of data or of their turning points.

SURVEYS AND BEHAVIOURAL ECONOMICS

Where surveys are particularly important is in the role they play in the growing area of behavioural economics. Here, for example, the limitations of traditional ‘logical’ or ‘rational’ economics are tested and the so-called ‘bounded rationality’ concept of human behaviour emerges.

This school of thought shows that there are anomalies in the traditional account of human need for goods and services to satisfy their demand. These anomalies take the form of:

- Adhering to social norms
- The importance of maintaining self-image
- The availability or desirability of goods
- Altruism
- Making us happy.

What this means is that, according to neo-classical general economic theory, if the price of a particular good increases, demand for that good falls. Where the anomalies come into play, of course, is when, despite

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the price of a particular good increasing, humans will still purchase it, because it is important to their self-image, because there is pressure from someone else within their social group (i.e. the children demand it) or simply because it makes them ‘happy’ or feel good. There will at some point be a time when the price rise may become wholly prohibitive, but until that time is reached, demand for that good will be maintained.

These may appear, at first glance, rather trivial observations, but these are the motivations that drive human behaviour and that are the essence of economic activity.

**TYPES OF SURVEY**

There is a plethora of surveys available:

- Consumer surveys – demonstrating what people are intending to spend money on, decisions about where to shop and when.
- Household surveys – showing employment prospects, inflation or interest rate fears.
- Business surveys – indicating investment or spending intentions, decisions that drive output or employment, supply side information.
- Market surveys – focusing on market sentiment that can be broken down across industry or sector.
- Government surveys – which look at the intentions of government and the impact of their activity.

In this chapter, we will focus on those surveys considered to drive markets and to have a discernible economic impact across business and consumers. We will look at what these surveys tell us and what they don’t tell us, how they can be interpreted and how you can extract value from them to support your trading decisions.

**BUSINESS SURVEYS**

**Purchasing Managers’ Index (PMI)**

This is a monthly economic indicator based on surveys of private companies in sectors such as manufacturing, services and construction.

**How It Works**

The survey encompasses private companies that purchase inputs which lead to a respective output.
What Does It Include?

The survey includes various components:

- Pricing
- Outputs
- Exports
- Domestic orders
- Production.

What Does It Tell Us?

The surveys tell us a number of things based on the demand for goods or services. These include elements such as the amount of production that is exported, how domestic orders are moving and the impact of price changes. This can tell us if the balance of trade is going to improve, if the economy is going to grow and if price inflation is going to accelerate or decelerate. Because the PMI has a services, production and construction element, together they give a snapshot of the whole economy. The weighting of these three components together tells us whether the economy is weak or strong and whether this is down to construction or manufacturing at the moment. The services PMI is either closer to, or further above, the 2008 peak than the other components.

What Does It Not Tell Us?

What the PMI does not tell us is what has actually happened. For that, we need the actual data. We do not ‘know’ that growth will pick up or that inflation will speed up or slow down. These will only be known after the fact, or ex post. That is when we really know what our response should have been, as opposed to what it was. Of course, if the survey was ‘right’ about the data, then there will be no difference in the reaction – it would simply have been early, because of the survey. In such a case, the release of the actual data might not elicit much financial market reaction, as this would already have occurred with the release of the survey.

How Can We Extract Value from This?

While we may not know, we can still take bets on whether the data are right or wrong, and decide whether they can be ignored if the signal is big enough and the survey has a good historical track record. That in itself is a signal of whether an investor’s bet is on the right track. It might indicate a new trend that, if followed, could be lucrative – for
example, if it anticipates a change in data that is important, either to the exchange rate, to fixed income securities or to the equity markets, if it is based on faster economic growth and so, by implication, better corporate earnings. The PMI split between manufacturing, services and construction can allow users who want to weight the prospects for different firms in these sectors, much in the same way as is implied by their relative performance from the PMI indices, to be able to do so. This could help streamline portfolios.

Let us take an example from 2013: the manufacturing PMI for February was released as usual on the first working day of the month. (The services survey is released two working days later.) That was 1 March. The survey came in much weaker than expected and so ‘shocked’ the market. What does this mean? The consensus of forecasts for the PMI, as collated by Bloomberg, was for a rise to 52.8 (for February 2013) from the then current value of 51.5 (for January 2013), which is indicative of rising manufacturing activity and so, by implication, faster economic growth. Any reading in the index above 50 is taken as expansionary for manufacturing and any reading below 50 is taken as contractionary.

In the event, the figure fell sharply to 47.9. This meant it had moved from expansionary to contractionary – rather than further into expansionary territory – in one very big move. This called into question the economic recovery and raised fears that the UK economy could undergo a ‘triple dip’ recession, as output had fallen by 0.3 per cent in Q4 2012. That is to say, two consecutive quarters of negative growth for the third time since 2008, including the deep recession of 2009.

As a result, there were sharp declines in prices across a range of financial markets (see Figures 1.1–1.4). It could be argued that, in the context of a tight fiscal stance and the limited room for manoeuvre the government has in the face of rising debt, weaker growth over a longer period of time and the need for a weaker currency to help exports, this equates to the need for a looser policy from the monetary authorities, which would have seen financial markets potentially rising instead of falling.

What was interesting in this example is that the actual data for manufacturing output did turn out to be poor, vindicating those who reacted to the survey evidence. Remember that one of the disadvantages of survey data is that they are an early guide to what may happen but they are not foolproof. The disadvantage is that they could be wrong and expose those who take the straightforward message to a loss position if they take bets on how markets will react to the data, as the truth can clearly turn out to be different from the opinions embodied in the surveys, and markets can also act perversely.
Equities rise as PMI’s suggest a strong economic recovery is underway.

Source: Thomson Datastream.

Bond yields rise on stronger growth and fears of higher inflation.

Source: Thomson Datastream.
Sterling rises vs US$ as PMI’s suggest strong economic recovery is underway.

*Source:* Thomson Datastream.

Sterling rises vs euro as market thinks interest rates may rise as growth picks up.

*Source:* Thomson Datastream.
The PMI also has a regional aspect. In 2013, the PMI for UK regions showed that activity accelerated, with Yorkshire and Humberside, Wales, London and the North West outperforming the UK average (see Figure 1.5).

**Confederation of British Industry (CBI): Industrial Trends Survey**

The CBI has been producing surveys for over 50 years and these cover a wide range of data, focusing on industrial trends, distributive trades, financial services, the services sector and investment intentions. Here we will focus on the CBI Industrial Trends Survey.

**How It Works**

The CBI conducts its Industrial Trends Survey on a monthly and quarterly basis. The survey boasts consistency, using the same sample of firms and producing the same data each month. It splits the data by employment size, market sector, geography and individual components specific to different sectors. It covers 38 sectors of the UK manufacturing industry at the level of chief executive.

Initially starting in 1952 on a quarterly basis, the survey was revamped in the 1970s when a monthly survey began. As such, it is the longest running UK private sector survey of qualitative business trends.
What Does It Include?

The CBI survey covers a range of the industries that have perhaps the greatest impact on the UK economy. These currently include:

- Industrial trends
- Distributive trends
- Service sector
- Financial sector
- Small and medium-sized enterprise (SME) trends
- Investment intentions.

In addition, the CBI conducts occasional surveys, which include:

- Procurement
- London business
- Education and skills
- Absences.

The Industrial Trends Survey offers a great deal of information, with the results disaggregated by employment size:

- 1–199
- 200–499
- 500+

and three market sectors:

- Investment
- Intermediate
- Consumer goods.

The survey includes both a regional manufacturing component and results specifically for the SME sector. Separate results are published for Scotland and Wales and the results for SMEs are also published separately.

What Does It Tell Us?

The quarterly Industrial Trends Survey is conducted in January, April, July and October each year and includes:

- General business optimism
- Export business optimism
- Investment intentions
- Capacity
- Domestic and export order books
- Employment numbers
Trading Economics

- Output
- Deliveries
- Stocks
- Prices
- Business constraints, e.g. to output, on investment
- Competitiveness across domestic, EU and non-EU markets
- Training and innovation.

The monthly survey includes:

- Domestic and export orders
- Stocks
- Price expectations
- Output expectations.

The responses are processed, providing raw weighted data from which percentage balances are derived. From this, each response is given a plus or minus value, from which changes can be discerned month to month and linked to economic outcomes. The survey thus presents an overall picture of how firms in the sector are performing, encompassing the key variables (see Appendix 1 for examples of questions from the CBI Industrial Trends Survey).

If we look at an example of some of the things the CBI survey was telling us in early 2013 about the UK economy, it is apparent in Figure 1.6 that those firms surveyed had lost some confidence since the post-recession highs and, after falling back, appeared to be making a modest rebound.

We have chosen to link firms’ confidence with investment intentions because UK investment in early 2013 was still 13 per cent below the peak reached prior to the recession, and recovery in investment is key to the wider recovery in the UK economy. This means that, as the survey shows that there is historically quite a good fit between business confidence and firms’ investment activity, one focus for financial markets is what businesses are telling us could happen next to economic growth and thus when it is likely that investment spending will recover.

At this point, it is worth bearing in mind that the chart shows that, although business confidence is low, it is still rather higher than actual investment based on its past links, and so is suggesting some economic growth and that recovery is under way. The evidence bears this out, with business investment (i.e. private sector investment spending on plant and machinery, and transport equipment) rising by 3.1 per cent in 2011 and by 4.9 per cent in 2012 (see Figure 1.7). The problem is that at this stage of an economic recovery, the growth of business investment should be
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Figure 1.6  CBI confidence measure vs FTSE.
Source: Thomson Reuters & LBCB.

Figure 1.7  Confidence vs investment spending.
Source: Thomson Reuters & LBCB.
considerably faster than it is at the moment, especially in light of the fact that the level of investment remains so far below its pre-crisis peak.

With little forward momentum, and business confidence still fragile, more recent trends suggest that business investment seems to be slipping back – for instance, in the final quarter of 2012, the level of business investment fell by 0.8 per cent compared with spending in the preceding quarter and, in the second quarter of 2013, it fell by 2.9 per cent. So what is the message here? It could be that private sector investment will pick up but only if business confidence starts to recover. And the trends are suggesting that the economy may be staging a recovery. But how does that correlate with output for manufacturing and the wider economy (see Figure 1.8)?

The economic data, in the shape of manufacturing output and the CBI survey of firms’ confidence about future output, created a double whammy, as manufacturing output dropped sharply for business confidence. In response, the UK surprise index, picking up the sharp fall in manufacturing output in October 2012, also fell sharply. This then led to a steep dip in the value of sterling against the US dollar. It fell from a high of nearly $1.64 against the US dollar to below $1.50 in the period, as Figure 1.9 shows.

Further, we can only assume that, unless investment picks up, manufacturing is unlikely to continue to recover and if that turns out to be
right then, although it represents only 10 per cent of the economy, a wider economic recovery would be at risk as well. That said, the fact that we are talking about these surveys and this evidence shows how important they are in understanding the evolution of the economy and the need to use them to watch out for turning points early enough for investors to latch on to them before they are clearly evident in official economic statistics.

If we consider signals about confidence generally in the economy, the European measure of business and consumer confidence, carried out using the same methodology as the CBI business confidence survey, shows that both business and consumer confidence, though modestly higher, seem to be waiting for greater direction (see Figure 1.10).

At the same time that this is happening, of course, equity markets are rising and spreads on high-yield corporate bonds are falling, suggesting that investors are looking for yield. However, the economic data from the CBI business surveys and the consumer surveys does not currently seem to fully support the optimism shown in the equity markets.

Much of the strength of the CBI surveys lies in their longevity, which allows trends to develop and link better to economic outcomes. If we look at the close relationship between the CBI survey of firms’ volume of orders, for example, this shows a good correlation over time with actual manufacturing output growth. However, month to month there is very little certainty about the output figure coming from the survey.

Figure 1.9 Business confidence leads sterling vs the US dollar. Source: LBCB.
and that is where the trend element of surveys with enough longevity to provide some confidence that the statistical relationship is sound really comes to the fore.

**What Does It Not Tell Us?**

As ever, the survey does not tell us what will happen exactly. It has been inaccurate in the past, pointing to downturns and upturns that have not occurred. As we have said, surveys can be wrong one-third of the time. Part of the reason for this is that the surveys do not have the breadth of coverage to extend to the whole UK economy. Furthermore, over time, the share of the economy associated with manufacturing has fallen from over 20 per cent when the CBI survey first started to about 10 per cent today.

This means that the ability to extrapolate from a survey about what manufacturing firms expect to happen, and therefore what is likely to happen in the whole economy, has diminished significantly as well. But this survey has been popular with analysts because of its long history and at times its accuracy, so it still has resonance with them. That said, it is clear that the survey is not telling us that a sharp rise in investment is likely and, since a fall in investment is one of the principal reasons why the economy has not yet fully recovered, it would be fair to say...
that, while the survey remains this weak – or marking time – a sharp, sustained recovery in the wider economy seems unlikely.

**How Can We Extract Value from This?**

If the survey starts to suggest that business confidence will actually begin to translate into greater spending by firms, then, based on the trust that many still have in its predictive powers, there could be some speculation that it is correct, leading to an anticipation that investment will rise sharply and that the overall economy will start to recover as a result. If that were to happen, there would be significant benefits from either selling bonds or taking a position that means there would be a gain from any sell-off, to then taking that and switching the proceeds into equities on a bet that equities are likely to rise.

Simply by looking at Figure 1.8 we can see that the downturn in 2009 was linked to the sharp decline in firms’ confidence. Someone who wanted to bet on that fall would have been correct to do so, as shown by linking firms’ confidence in the survey to the FTSE (see Figure 1.6).

**Bank of England Agents’ Summary of Business Conditions**

This is a monthly report produced by agents of the Bank of England who are based around the country.

**How It Works**

Agents, situated in the major conurbations, travel around interviewing some 700 businesses. These responses are then used to create a summary report of business conditions.

**What Does It Include?**

The summary includes:

- A summary of business conditions representing firms across all sectors from around the country
- Demand for goods and services
- Corporate credit availability
- Investment intentions
- Exports
• Output
• Employment intentions
• Capacity
• Imports
• Inflation.

The Bank’s agents use the data to make quantitative assessments of economic conditions in their regions.

**What Does It Tell Us?**

This is certainly a useful survey that takes into account opinion up and down the country. It provides both a geographical view and one that is timely and that can be broken down into different types of firms, by both size and range of activity.

**What Does It Not Tell Us?**

It does not tell us how these views translate into action by these firms. So, while the opinions are useful and can be good lead indicators of opinions that could solidify into actual business decisions, it is not clear that they do. Instead, the chief value could be in allowing firms the opportunity to air their views with the authorities and get them heard.

**How Can We Extract Value from This?**

The data are used by the Bank’s Monetary Policy Committee – the MPC – to monitor and assess current economic conditions. The committee is charged by the government to achieve its objective of low and stable inflation over the medium term. In order to fulfil that task, the MPC has to interpret and analyse information about the current and future state of the economy. This information comes from official statistics, from private sector surveys, from financial market trends and from its own agents in the regions.

All of this is used by the MPC when deciding whether or not to alter interest rates. Hence, the agents’ surveys are very important to policymakers, although less so to the wider business community and market watchers. (An example of a summary page from the agents’ survey included in the Bank of England Quarterly Bulletin is attached in Appendix 2.)
Lloyds Bank Business Barometer

The Barometer assesses business confidence and sentiment at monthly intervals.

How It Works

The Barometer surveys a sample of some 300 companies with a turnover above £1 million in a variety of sectors and regions across the UK.

What Does It Include?

The survey asks firms about:

- Their trading prospects and business activity for the next year
- Their optimism about the economy generally compared with the previous three months.

What Does It Tell Us?

The survey has a good track record in leading changes in GDP and in leading the PMI survey. Its data are viewable on Bloomberg and can be plotted against a variety of financial and economic data flows to see how they are linked. Currently, the survey is suggesting that the economy is expanding by an underlying rate of growth of about 0.8 per cent or so, roughly speaking. The survey cannot pick up seasonal factors, weather or other one-off events, like sports and holidays. The survey is good at predicting the PMI so here, too, it is a leading indicator of the evolving trends in the economy that can then be subsequently seen in GDP. We estimate that it has a four-month lead on GDP.

What Does It Not Tell Us?

It is a guide to underlying trends but can be side-tracked by events that unfold all the time, such as sudden cold snaps or shutdowns and strikes. In addition, of course, it does not give us a point estimate for growth. We have to calculate that from looking at its long-term trend relative to that of quarterly GDP and estimate what a change in the survey would lead to in terms of a change in GDP.

In other words, it is a proxy for output and for firms’ sentiments with regard to how they are feeling about their own economic prospects. In
How Can We Extract Value from This?

The key point about this survey is that it is a good snapshot of trends in the UK economy, with tips about employment and quarterly GDP. Quite often the survey has highlighted that UK firms feel better about their own prospects for sales than they do about the prospects for the wider economy. This is something that other business surveys do not have and that makes it useful in capturing the pace of activity in the UK (see Figure 1.11).

Figure 1.11 highlights just how good a fit there is between the fortunes of the All-Share index and the Lloyds Bank Business Barometer question regarding firms’ own prospects. The rise in the FTSE All-Share in the first half of 2013 is correlated with the improvement seen in the business component of the Barometer.

We have shown that this is pertinent in looking at the sterling foreign exchange rate and the UK equity market (see Figure 1.12) – and this information comes out before the PMI.
Overall, the Business Barometer has a good fit with the annual percentage movements in sterling’s trade-weighted index (TWI). An increase in sterling does not help activity, whereas a fall seems to improve it. This is what we would expect to see. In the first half of 2013, the fall in the TWI is consistent with the rise in the business activity observed in Figure 1.12.

The British Chambers of Commerce Quarterly Economic Survey (QES)

This is the largest and, according to the British Chambers of Commerce (BCC), the most representative independent business survey in the UK.

How It Works

Each quarter (January, April, July, October), more than 7500 businesses participate in the survey, which is the first economic indicator of the quarter, emerging before the release of official figures or other private surveys.

What Does It Include?

- Home sales and orders
- Export sales and orders
- Employment prospects
What Does It Tell Us?

Like many other business surveys, it is telling us that the UK economy is flat and that prospects for recovery probably rest on an increase in investment. However, with demand weak, firms seem reluctant to invest. As befits the largest survey of its type, this is telling us that fact with greater authority than other, smaller surveys. However, this point must not be over-emphasised, as in surveys, so long as the sample is representative of the population it is trying to cover, the new information from its greater coverage is not actually that informative. The BCC survey, however, is useful in reminding us that manufacturing is not driving the economy. In terms of output, services are (accounting for 70 per cent). And the survey of services suggests that the economy is expanding: while manufacturing is lagging, the services sector is doing rather better. The industry breakdown suggests that it is higher value-added, export-orientated industries that are doing best of all. The size distribution suggests that large firms are doing better than small ones, on the whole. But small firms that are in the hi-tech sector are doing best of all.

What Does It Not Tell Us?

It cannot be definite and it cannot tell us for sure which firms will outperform in these sectors. But it has a wealth of information that can
be used alongside other evidence (actual data, anecdotes and company reports) to give a good a sense of how the economy is performing.

_How Can We Extract Value from This?_

The value of this survey is its historical pedigree and its unique breakdown of the survey responses into different sizes and industrial and regional compositions. For financial markets, the regional component may not be that relevant, but in aggregate, the sector and size data are highly relevant. They tell us about relative performance and which sector one should perhaps overweight or underweight in a portfolio.

**CONSUMER SURVEYS**

Many consumer surveys aren’t as strong as their business counterparts. However, they do matter simply, for example, because consumer surveys include inflation expectations, which impact on market sentiment and the pay bargaining process.

_Confederation of British Industry (CBI) Distributive Trades Survey_

This survey considers UK retail, wholesale and motor trade activity.

_How It Works_

The survey, which has been active since 1983, covers 24 sectors of UK retail, wholesale and motor trade activity on a monthly and quarterly basis. It encompasses both high street and internet sales.

_What Does It Include?_

- Volume of sales
- Sales and stocks according to seasonality
- Orders of suppliers
- Imports
- Selling prices
- Employee numbers
- Current and expected internet sales
- Internet pricing
- Business and investment decisions.
What Does It Tell Us?

This report tells us how the UK company sector is doing, with a wealth of information about trends in output, capacity, margins, investment biases, hiring intentions, training prejudices and so on.

Calculations suggest that the CBI surveys have a 5 per cent confidence interval. The confidence interval tells us the probability (read chance) that a figure, outcome or event will fall within a certain range. Calculations suggest that CBI surveys have a 95 per cent probability that the outcome of the survey will fall into the range we expect, based on repeated samples of this type of data. For example, two factors that might determine the confidence interval are the length of the data series and the number of people or participants taking part. But it must also be an exercise or event that has been repeated many times so that a probability can be worked out. Confidence intervals are therefore used to measure the reliability of estimates of data falling in a particular range. An example, other than surveys, is an election, where people have the choice of voting for different parties. We could say that we can be 95 per cent sure that the share of the vote for the winning party falls into a range of 30–45 per cent based on repeated historical evidence. However, we cannot predict the actual vote of the winning party using this approach. In other words, just because we can be accurate about the region a variable may lie in, that does not mean we can predict its actual value within that range. In trying to get an estimate of the actual vote a party may get (in this example), we would have to look at the properties of each party that might lead to a specific share of the vote for them. There are statistical estimates that do try to predict the actual point estimate of a variable, based on running an explanatory variable (or a number of them) against a single variable that they are trying to explain – in other words, trying to predict an actual outcome (value) based on a number of parameters that are thought to determine its value. In our example, these explanatory variables might include the number who voted for that party the last time, the standing of the party in the polls, the level of income of those taking part in the vote and so on. This approach will give us a different chance of getting that variable right.

In terms of a survey, looking at the value that might lead it to have a specific outcome, such as the economic cycle, the past history of the survey, the number of firms taking part, and so on, can help to predict an actual value. Using this approach, analysis suggests that the CBI survey result will be accurate *two out of three times*. This would still
be consistent with saying that the survey outcome will fall within a probability distribution of 95 per cent. That means, of course, that there is also a 5 per cent chance that it will not fall within this range!

**What Does It Not Tell Us?**

Well, if it is right two out of three times, then it is wrong one in three times. It cannot tell when the things it predicts are going to happen for sure. That is down to momentum, network effects and the evidence showing up in actual data.

The CBI Distributive Trades’ survey clearly has much less of a link to retail sales than the average for the CBI survey for companies would imply. This may be because the sample size is too small or because the survey is of distributors rather than retailers.

In fact, what we’ve been seeing is that the gap between retail sales and surveys has been widening. Neither the CBI survey, nor those conducted either by the British Retail Consortium (BRC) or by individual retailers such as John Lewis, are actually managing to capture the market for retail sales trends particularly well.

So why is that? It may simply be due to the fact that tastes change too quickly and that one store’s success is another one’s failure or vice versa. It is a pattern repeated across the CBI Distributive Trades’ survey measuring motor vehicle sales markets as well. And the reason is similar – there, too, the market is too diverse for one all-encompassing survey to capture the entire trend.

**How Can We Extract Value from This?**

But it does not mean there is no value in this – there is. That the motor sector is doing well is indisputable. Exports are up and sales are up. But the survey is also warning that sales to Europe, our key market, are slowing due to the slow pace of economic activity. That is an early warning available only to those who look closely at this survey. BRC data are a snapshot and sometimes tells us more about large firms than small ones and sometimes about who is gaining markets and who is not, but it is still a trend indicator. Retail sales in the UK are slowly recovering and this is a sign of the pressure that consumers are under, as incomes are squeezed by rising inflation, perhaps, and by slow growth in nominal earnings. The result is that retail firms are under pressure. Policymakers and investors will likely take that on board.
GfK Consumer Confidence Index

One of a series of confidence indices conducted on the same methodology across a range of European economies, the UK’s GFK survey is conducted on behalf of the EU Commission and considers consumer confidence in and reaction to the general economic situation.

How It Works

The survey is conducted amongst over 2000 participants aged 16 years and above. The samples are adjusted in terms of age, sex, religion and social class to be representative of the UK population as a whole. Similar surveys conducted in other European countries on behalf of the EU are seasonally adjusted (SA), but the UK survey does not contain any seasonal adjustment.

What Does It Tell Us?

- Changes in personal finance over the past 12 months
- Forecast changes in personal finance over the next 12 months
- General economic situation over the past 12 months
- Expectations of the general economic situation over the next 12 months
- Climate for major purchases
- Savings index – whether now is a good time to save
- Overall measures produce a monthly consumer confidence measure.

What Does It Not Tell Us?

In reality, consumers can defy trends for a long time before reacting suddenly and powerfully to them, so the survey just tells us what the average consumer is worried about. It does try to show whether they are saving more or cutting down on major items, but not when and not by how much. That is a weakness that could be rectified by additional questions to create a guide to these issues.

How Can We Extract Value from This?

As this is one of the best surveys of consumer confidence and consumer trends currently available, the value is in what it says about consumer
reaction to the economic environment that consumers are in. If they are saving more, it means they are worried about their income and about their financial situation. It tells us to be cautious about expecting consumer spending to continue at the same pace as prior to the survey’s latest news. It warns about financial stresses and pressure on consumers; as a result of this, there could be increased bankruptcy, for instance. Of course, for firms that are debt collectors it would be good news, but for others it is bad news. If the climate for major purchases were falling, it would be consistent with a drop in overall confidence levels. So we can look to see if the survey is, as one might say, internally consistent and logically sensible in its responses (we would not expect people to say they are worried about the future and yet be increasing spending on large items and saving less – at least it would flag up that this could not last for long) and that it makes sense. If so, it is a great way for financial market watchers and investors to track these trends into how they translate into higher returns in equities by investors betting that markets fall when a rise is no longer logical or rise when a further fall is at odds with sensible analysis and so unlikely.

**Nationwide Consumer Confidence Survey**

This survey was conducted for eight successive years and ended in May 2012. It was a monthly survey conducted amongst a sample of 1000 adults, adjusted to be representative of the UK population. The sample was asked a series of questions:

- Appraisal of current economic conditions
- Expectations regarding economic conditions six months hence
- Appraisal of the current employment conditions
- Expectations regarding employment conditions six months hence
- Expectations regarding their total family income six months hence.

The results then represented a picture of expectations, current situation and overall consumer confidence.

During its run, the survey seemed to offer a good guide to consumer behaviour at the aggregate level.

**Lloyds TSB Spending Power Report**

The Spending Power Report examines trends in consumer spending power.
How It Works

The report measures payments into Lloyds TSB current accounts and subtracts essential expenditure, including mortgage payments and food shopping. This is combined with a survey of 2000 consumers which asks about their current and future spending patterns and how their regular commitments impact on that spend.

What Does It Tell Us?

- Income
- Essential expenditure
- Spending power
- Inflationary changes on non-essential goods.

Below that it considers payments on:

- Energy bills
- Fuel payments
- Food and drink
- Council tax
- Water
- TV licence.

What Does It Not Tell Us?

It tells us about the Lloyds Bank position but not that of other clearing banks. Of course, to the extent that Lloyds has a representative set of customers, it is a snapshot of the UK as a whole. But unless it can be checked with other clearing banks’ data, it could be seen as analogous to the John Lewis retail sales data – useful but more to do with how that particular firm is performing than with retail sales as a whole – although with many more customers than they have.

How Can We Extract Value from It?

The data tells us about what proportion of household income is being spent on different elements and how this is evolving with regard to their balance sheet. The value is in linking this to wider economic trends, such as whether people are saving more or less and what this says about consumer spending and hence economic growth prospects, particularly looking ahead.
Surveys 27

Bank of England/GfK/NOP Inflation Attitudes Survey

This is a quarterly survey of public attitudes to inflation.

How It Works

The survey was started in 2001 as part of the Bank of England’s desire to educate the public about its monetary policy framework, the impact of price stability and the methods for achieving this. The survey asks nine questions, several of which target the level of understanding, knowledge and attitudes towards the policy and processes of the MPC. The questions also cover expectations of interest rates and inflation, satisfaction or dissatisfaction with the work of the MPC, perceptions of the relationship between interest rates and inflation and knowledge of who sets the rates.

The survey is carried out amongst adults over 16 years of age using a random location sample based on UK constituencies to give a representative sample of the UK population. Quotas for gender and working status are included.

What Does It Tell Us?

- Knowledge of the current rate of inflation
- Expectations of inflation over the coming year
- Expected inflation in the 12 months beyond that
- Expected inflation over the longer term, i.e. five years
- An understanding of the effect of inflation on the economy
- Perception of the inflation target
- Knowledge of interest rates
- Interest rate expectations
- Perception of what would be best for the economy in terms of interest rates
- Perception of what would be best for them personally in terms of interest rates
- Understanding of who sets interest rates
- Whether the Bank of England is doing its job satisfactorily
- How inflation over the next year will impact their actions.

What Does It Not Tell Us?

How much of this is driven by actual inflation and how much is driven by fears about inflation. There is some evidence that these surveys of
inflation are more affected by the actual rate than the other way round. It leaves out wage inflation, and wages are the biggest driver of price inflation. A spiral of wage and price inflation is one of central bankers’ worst nightmares.

**How Can We Extract Value from It?**

The value is in seeing the impact this has on index-linked gilts or inflation-protected bonds. It could lead investors in fixed income markets to price in more or less inflation risk depending on this survey. It is keenly watched at the moment as monetary policy is historically very loose. One of the dangers of this is that it sets off an inflation cycle. One of the signs that this is happening would be that high inflation becomes ‘embedded’ in expectations. This is why this particular survey is so important and will remain important as long as the current situation persists. If it looks as if inflation expectations are soaring amongst households, then it could mean an end to further monetary loosening and could even signal its reversal. Hence, it is a very important piece of information at the moment.

**CONCLUSION**

Data collected by survey have become increasingly easy to exploit as advances in technology over the past 30 years have enabled faster collection and processing of data and provided the ability to manipulate and extrapolate information more easily and in a far more cost-effective way.

As the psychology of economics has developed in recent years, the value of qualitative surveys has also increased. Human behaviour has such a demonstrable impact on economics that surveys monitoring or measuring behaviour and responses are of obvious import.

Surveys can provide an invaluable source material for policy research, for example. As we have seen, the longevity of many of the surveys we have encountered in this chapter provide excellent trend data. But the value of surveys is not just limited to their historic snapshots. Many surveys also include questions referring to confidence or future expectations and, given the economic downturn, the responses to this type of question are often given a great deal of weight.

Given the ‘herd effect’ of humans, this is both understandable and significant. Optimism breeds optimism in such a way that a respected survey that shows an increase in confidence is likely to be self-perpetuating.
Surveys

Having said that, surveys need to be treated with caution – they are, as we have seen, not measuring activity but either ingredients to activity or sentiments around it.

Reasons to be cheerful about surveys:

- They provide an insight into business or consumer sentiment.
- They are not constrained by linear logic and can be more multidimensional.
- Insights can come from differences of opinions, not from ‘group think’.
- Surveys offer alternative ways of looking at the same situation.
- The power of suggestion or persuasion – as herd animals, surveys can become self-fulfilling.

Reasons to be cautious about surveys:

- They do not measure activity.
- They can deviate significantly from actual output measures.
- The vagaries of human activity can defy measurement.
- They can be subject to bias.
- They are only as good as the questions asked and the survey methods used.